September 30, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017

November 8, 2017

This management's discussion and analysis ("MD&A") of Pollard Banknote Limited ("Pollard") for the three and nine months ended September 30, 2017, is prepared as at November 8, 2017, and should be read in conjunction with the accompanying unaudited condensed consolidated interim financial statements of Pollard and the notes therein as at September 30, 2017 and the audited consolidated financial statements of Pollard for the year ended December 31, 2016 and the notes therein. Results are reported in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP").

Forward-Looking Statements

Certain statements in this report may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. When used in this document, such statements include such words as "may," "will," "expect," "believe," "plan" and other similar terminology. These statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this document. There should not be an expectation that such information will in all circumstances be updated, supplemented or revised whether as a result of new information, changing circumstances, future events or otherwise.

Use of Non-GAAP Financial Measures

Reference to "Adjusted EBITDA" is to earnings before interest, income taxes, depreciation and amortization, unrealized foreign exchange gains and losses and certain non-recurring items including severance costs and acquisition costs. Adjusted EBITDA is an important metric used by many investors to compare issuers on the basis of the ability to generate cash from operations and management believes that, in addition to net income, Adjusted EBITDA is a useful supplementary measure.

Adjusted EBITDA is a measure not recognized under GAAP and does not have a standardized meaning prescribed by GAAP. Therefore, this measure may not be comparable to similar measures presented by other entities. Investors are cautioned that Adjusted EBITDA should not be construed as an alternative to net income determined in accordance with GAAP as an indicator of Pollard's performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows.

Basis of Presentation

The results of operations in the following discussions encompass the unaudited consolidated results of Pollard for the three and nine months ended September 30, 2017. All figures are in millions except for per share amounts.

POLLARD BANKNOTE LIMITED

Overview

Pollard Banknote Limited ("Pollard") is one of the leading providers of products and services to lottery and charitable gaming industries throughout the world. Management believes Pollard is the largest provider of instant-win scratch tickets ("instant tickets") based in Canada and the second largest producer of instant tickets in the world.

During the quarter ending September 30, 2017, Pollard acquired 100% of the common shares of INNOVA Gaming Group Inc. ("INNOVA", "Diamond Game").

Pollard produces and provides a comprehensive line of instant tickets and lottery services including: licensed products, distribution, SureTrack® lottery management system, retail telephone selling ("tel-sell"), marketing, iLottery, interactive gaming, Social Instants™, retail management services and vending machines including game systems and tickets marketed under the Diamond Game trade name. In addition, Pollard's charitable gaming product line includes pull-tab (or break-open) tickets, bingo paper, pull-tab vending machines and ancillary products such as pull-tab counting machines. Pollard also markets products to the commercial gaming and security sector including such items as promotional scratch and win tickets, transit tickets and parking passes.

Pollard's lottery products are sold extensively throughout Canada, the United States and the rest of the world, wherever applicable laws and regulations authorize their use. Pollard serves over 60 instant ticket lotteries including a number of the largest lotteries throughout the world. Charitable gaming products are mostly sold in the United States and Canada where permitted by gaming regulatory authorities. Pollard serves a highly diversified customer base in the charitable gaming market of over 250 independent distributors with the majority of revenue generated from repeat business.

Product line breakdown of revenue

	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Instant Tickets	84.7%	90.0%	87.8%	88.9%
Charitable Gaming Products	9.9%	10.0%	10.4%	11.1%
Diamond Game Products	5.4%	-	1.8%	-

Geographic breakdown of revenue

	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
United States	55%	51%	57%	55%
Canada	25%	21%	21%	20%
International	20%	28%	22%	25%

The following financial information should be read in conjunction with the accompanying unaudited consolidated financial statements of Pollard and the notes therein as at and for the three and nine months ended September 30, 2017.

SELECTED FINANCIAL INFORMATION

(millions of dollars, except per share information)

	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Sales	$70.7	$62.7	$206.1	$180.7
Cost of sales	52.5	50.1	157.9	145.8
Gross profit	18.2	12.6	48.2	34.9
Gross profit as a % of sales	*25.7%*	*20.1%*	*23.4%*	*19.3%*
Administration expenses	9.1	5.5	21.1	15.9
Administration expenses as a % of sales	*12.9%*	*8.8%*	*10.2%*	*8.8%*
Selling expenses	2.7	2.1	6.8	5.8
Selling expenses as a % of sales	*3.8%*	*3.3%*	*3.3%*	*3.2%*
Net income	4.6	2.8	12.4	8.5
Net income as a % of sales	*6.5%*	*4.5%*	*6.0%*	*4.7%*
Adjusted EBITDA	11.6	7.8	31.0	20.6
Adjusted EBITDA as a % of sales	*16.4%*	*12.4%*	*15.0%*	*11.4%*
Net income per share (basic and diluted)	$0.20	$0.12	$0.53	$0.36

	September 30, 2017	December 31, 2016
Total Assets	$224.8	$176.8
Total Non-Current Liabilities	$117.0	$94.4

RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA

(millions of dollars)

	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Net income	$4.6	$2.8	$12.4	$8.5
Adjustments:				
Amortization and depreciation	3.6	2.8	8.8	8.5
Interest	1.1	0.9	2.5	2.6
Acquisition costs	1.4	-	2.4	-
Severance costs	1.3	-	1.3	-
Unrealized foreign exchange (gain) loss	(2.3)	0.1	(1.9)	(2.0)
Income taxes	1.9	1.2	5.5	3.0
Adjusted EBITDA	$11.6	$7.8	$31.0	$20.6
Diamond Game (INNOVA)	$1.1	-	$1.1	-
Pollard Banknote Limited	10.5	7.8	29.9	20.6
Adjusted EBITDA	$11.6	$7.8	$31.0	$20.6

Acquisition of INNOVA Gaming Group Inc.

INNOVA, through its wholly owned subsidiary Diamond Game, designs, develops, produces, markets, and services games, systems and tickets for the North American gaming industry, predominantly in the business to government ("B2G") lottery sector. INNOVA's strategy is to enhance revenues of government-sponsored lotteries and other regulated operators by offering its unique "extended-play" products in traditional venues and non-traditional venues. INNOVA is licensed or permitted to sell or lease its gaming machines, ticket dispensers or other alternative gaming products ("AGP") in 11 U.S. states, Ontario and Québec.

INNOVA's primary product is the third generation Lucky Tab machine ("LT-3"), an "extended play" instant ticket vending machine ("ITVM") that dispenses tickets while simultaneously displaying the results of each ticket on a video monitor in an entertaining fashion. INNOVA also develop AGP machines, such as Class II bingo, skill games and tribal donation games. Its high quality gaming products, systems and services typically generate recurring revenue, either through revenue sharing agreements or fixed-fee leases. INNOVA also sell products and services, which include tickets for our machines, servers, software licenses, technical support, parts, game conversion kits and hardware upgrade kits.

On August 3, 2017, 10188557 Canada Inc. (the "Offeror"), a wholly-owned subsidiary of Pollard, acquired 17,929,021 common shares of INNOVA which had been validly tendered under the offer to acquire all of the outstanding common shares (the "Offer") for $2.50 in cash per common share. The Offer was extended until August 15, 2017.

On August 15, 2017, an additional 1,167,946 common shares were acquired under the extension of the Offer for $2.50 in cash per common share. A total of 19,096,967 common shares or 95.13% of the issued and outstanding common shares were acquired under the Offer. On August 18, 2017, Pollard mailed to all remaining holders of common shares a Notice of Compulsory Acquisition pursuant to the provisions of Section 206 of the Canada Business Corporations Act to complete the acquisition of 100% of the common shares. On September 18, 2017, the Compulsory Acquisition was completed and the Offeror acquired the remaining 976,932 common shares not already held by the Offeror, thereby becoming the holder of 100% of the common shares. On September 19, 2017, INNOVA was formally delisted from the Toronto Stock Exchange.

The acquisition was completed for aggregate consideration of $50.2 million. The purchase price was funded by proceeds from Pollard's credit facility and additional subordinated debt.

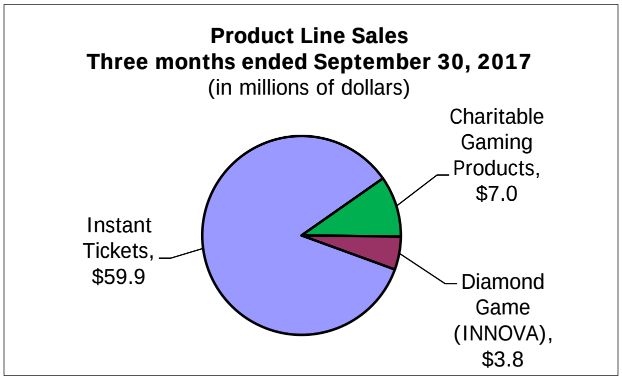
During the 58 days between the August 3, 2017, and September 30, 2017, INNOVA generated revenues of approximately $3.8 million and had a net loss of $0.5 million, which have been recorded in the consolidated financial statements. Included in INNOVA's net loss was $1.3 million of severance costs related to the departure of a former executive. If INNOVA had been acquired on January 1, 2017, incremental revenue of $16.9 million, net loss of $3.4 million (which includes $4.2 million of Innova's transaction costs relating to the sale of the company) and adjusted EBITBA of $4.7 million would have been included in the nine months ended September 30, 2017.

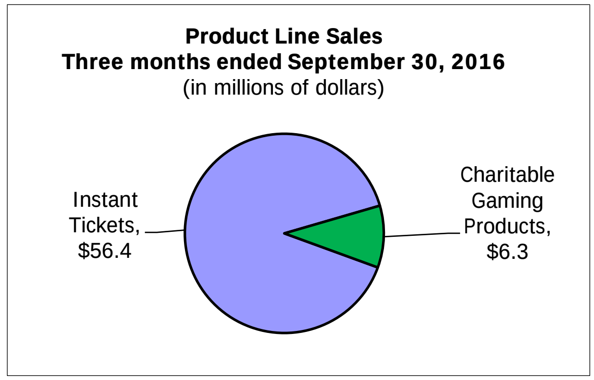
REVIEW OF OPERATIONS

Financial and operating information has been derived from, and should be read in conjunction with, the unaudited consolidated financial statements of Pollard and the selected financial information disclosed in this MD&A.

ANALYSIS OF RESULTS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2017

Sales

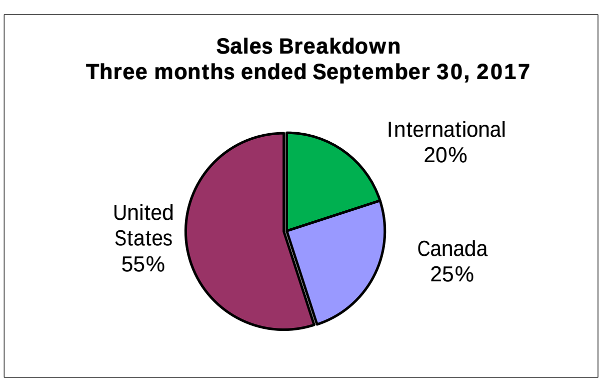


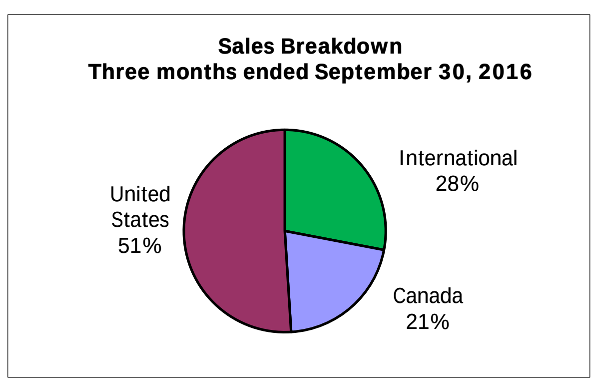


During the three months ended September 30, 2017, Pollard achieved sales of $70.7 million, compared to $62.7 million in the three months ended September 30, 2016. Factors impacting the $8.0 million sales increase were:

The higher instant ticket average selling price for the third quarter of 2017 increased sales by $4.9 million when compared to the third quarter of 2016. This increase was a result of the higher proportion of instant tickets sales coming from Pollard's proprietary products, Scratch FX® and Playbook® in 2017. Sales of ancillary lottery products and services were higher in 2017, improving sales by $1.7 million due primarily to higher iLottery sales. An increase in charitable gaming volumes during the quarter increased sales by $1.0 million when compared to 2016. Also, the inclusion of Diamond Game (INNOVA) in the quarter increased sales by $3.8 million.

Partially offsetting these increases was a decrease in instant ticket volumes in the third quarter of 2017 compared to the prior year which decreased sales by $1.8 million. Pollard produced a near record high of instant ticket volume in the quarter; however a portion of this production will not be sold until the fourth quarter. Finally, a slight decrease in the average selling price of charitable gaming decreased sales by $0.1 million when compared to the third quarter of 2017.





During the three months ended September 30, 2017, Pollard generated approximately 65.1% of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During the third quarter of 2017 the actual U.S. dollar value was converted to Canadian dollars at $1.266, compared to a rate of $1.303 during the third quarter of 2016. This 2.9% decrease in the U.S. dollar value resulted in an approximate decrease of $1.3 million in revenue relative to the third quarter of 2016. Also during the quarter, the value of the Euro strengthened against the Canadian dollar resulting in an approximate increase of $0.1 million in revenue relative to the third quarter of 2016.

Cost of sales and gross profit

Cost of sales was $52.5 million in the third quarter of 2017 compared to $50.1 million in the third quarter of 2016. Cost of sales were higher in the quarter relative to 2016 as a result of the addition of Diamond Game (INNOVA) of $2.4 million, plus $0.2 million of additional amortization related to intangible assets recognized as part of the acquisition. Cost of sales also increased because of increased ancillary lottery products and services sales and higher charitable gaming volumes. Partially offsetting these increases were the decrease in instant ticket volumes and lower exchange rates on U.S. dollar transactions.

Gross profit was $18.2 million (25.7% of sales) in the third quarter of 2017 compared to $12.6 million (20.1% of sales) in the third quarter of 2016. These increases in gross profit and gross profit percentage, were due primarily to the increase in the average selling price of instant tickets and the addition of Diamond Game (INNOVA).

Administration expenses

Administration expenses increased to $9.1 million in the third quarter of 2017 compared to $5.5 million in the third quarter of 2016. The increase was partly a result of the inclusion of Diamond Game (INNOVA) of $2.1 million (which includes $1.3 million in severance costs related to the departure of a former executive). An additional factor in the increase was the $1.4 million in acquisition costs in the third quarter of 2017.

Selling expenses

Selling expenses increased to $2.7 million in the third quarter of 2017 compared to $2.1 million in the third quarter of 2016 primarily as a result of the $0.4 million in expenses resulting from the addition of Diamond Game (INNOVA).

Interest expense

Interest expense increased to $1.1 million in the third quarter of 2017 compared to $0.9 million in the third quarter of 2016 primarily as a result of the additional interest expense related to long term and subordinated debt incurred with the purchase, commencing in August, of Diamond Game (INNOVA). The increase was partially offset by lower interest rates and higher cash flow reducing long-term debt in 2017 prior to the acquisition.

Foreign exchange gain

The net foreign exchange gain was $1.0 million in the third quarter of 2017 compared to nil in the third quarter of 2016. The 2017 net foreign exchange impact consisted of an unrealized foreign exchange gain of $2.3 million primarily as a result of the decreased Canadian equivalent value of U.S. denominated debt due to the strengthening of the Canadian dollar relative to the U.S. dollar. This unrealized gain was partially offset by a realized foreign exchange loss of $1.3 million, predominately a result of foreign currency denominated account receivables collected in the quarter being converted into Canadian dollars at unfavorable foreign exchange rates.

The 2016 net foreign exchange impact consisted of an unrealized foreign exchange loss of $0.1 million primarily as a result of the increased Canadian equivalent value of U.S. denominated debt due to the weakening of the Canadian dollar relative to the U.S. dollar. This loss was offset by a realized foreign exchange gain of $0.1 million, predominately a result of foreign currency denominated account receivables collected in the quarter being converted into Canadian dollars at favorable foreign exchange rates.

Adjusted EBITDA

Adjusted EBITDA was $11.6 million in the third quarter of 2017 compared to $7.8 million in the third quarter of 2016. The primary reasons for the increase in Adjusted EBITDA of $3.8 million were the addition of Diamond Game (INNOVA) of $1.1 million and the increase in gross profit (net of amortization and depreciation) of $4.4 million. Partially offsetting these increases were the increase in realized foreign exchange loss of $1.4 million.

Income taxes

Income tax expense was $1.9 million in the third quarter of 2017, an effective rate of 28.3%, which was similar to our expected effective rate of 27.0%.

Income tax expense was $1.2 million in the third quarter of 2016, an effective rate of 28.5%, which was similar to our expected effective rate of 27.0%.

Amortization and depreciation

Amortization and depreciation, including amortization of deferred financing costs and intangible assets, and depreciation of property and equipment, totaled $3.6 million during the third quarter of 2017 which increased from $2.8 million during the third quarter of 2016. The increase was primarily as a result of the inclusion of Diamond Game (INNOVA), with $0.6 million of amortization and depreciation, and the $0.2 million of additional amortization related to intangible assets recognized upon the acquisition.

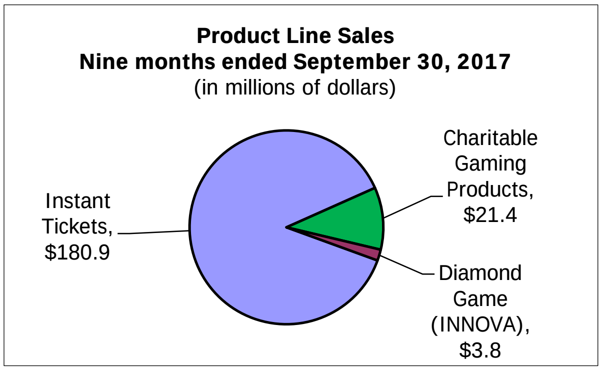
Net income

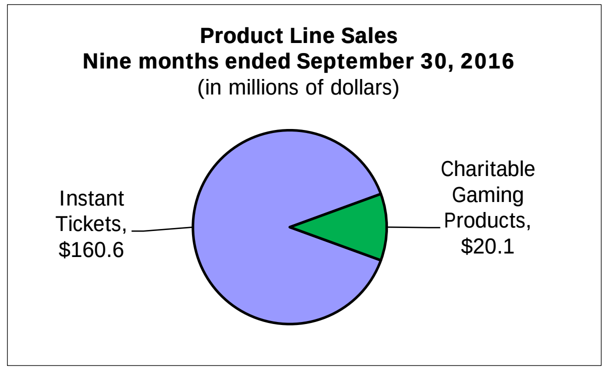
Net income was $4.6 million in the third quarter of 2017 compared to a net income of $2.8 million in the third quarter of 2016. The primary reasons for the $1.8 million increase were the increase in gross profit of $4.2 million and the increase in the net foreign exchange gain of $0.9 million. These increases were partially offset by the inclusion of the loss from Diamond Game (INNOVA) of $0.5 million (which includes $1.3 million in severance costs related to the departure of a former executive) and the additional amortization related to intangibles recognized on acquisition of $0.2 million. Additional reductions to net income included an increase of $1.5 million in administration expenses (which includes $1.4 million in acquisition costs), higher selling expenses of $0.2 million, additional interest expense of $0.2 million and an increase in income taxes of $0.9 million.

Net income per share (basic and diluted) increased to $0.20 per share in the third quarter of 2017 from $0.12 in the third quarter of 2016.

ANALYSIS OF RESULTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017

Sales

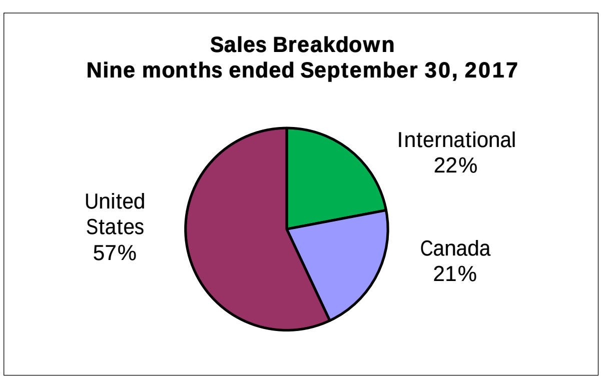


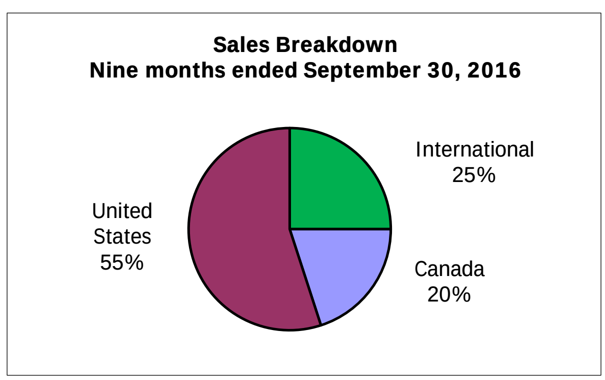


During the nine months ended September 30, 2017, Pollard achieved sales of $206.1 million, compared to $180.7 million in the nine months ended September 30, 2016. Factors impacting the $25.4 million sales increase were:

Higher instant ticket sales volumes increased sales by $7.2 million in the first nine months of 2017 compared to the first nine months of 2016 due to a record amount of production this year, based on increased orders from existing customers. Additionally, the higher instant ticket average selling price increased sales by $9.2 million when compared to 2016. This increase was a result of the higher proportion of instant tickets sales coming from Pollard's proprietary products, Scratch FX® and Playbook®.

Higher sales of our ancillary instant ticket products and services increased sales by $5.0 million from the first nine months of 2016. The increase in these sales was due primarily to higher sales of licensed products, greater revenues from iLottery and added sales from our loyalty solution. As well, the addition of Diamond Game (INNOVA) added $3.8 million in sales. An increase in the charitable gaming volumes increased sales by $0.9 million from 2016, while the increased average selling price for charitable games further increased sales by $0.6 million.





During the nine months ended September 30, 2017, Pollard generated approximately 69.7% of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During the first nine months of 2017 the actual U.S. dollar value was converted to Canadian dollars at $1.315, compared to a rate of $1.327 during the first nine months of 2016. This 0.9% decrease in the U.S. dollar value resulted in an approximate decrease of $1.2 million in revenue relative to the first nine months of 2016. In addition, during the nine months ended September 30, 2017, the weakening of the Euro against the Canadian dollar resulted in an approximate decrease of $0.1 million in revenue relative to the first nine months of 2016.

Cost of sales and gross profit

Cost of sales was $157.9 million in the nine months ended September 30, 2017, compared to $145.8 million in the nine months ended September 30, 2016. Cost of sales was higher in the first nine months of 2017 relative to 2016 as a result of higher volumes of instant tickets and increased ancillary instant ticket products and services sales. A portion of the increase also related to the inclusion of Diamond Game (INNOVA) financial results which amounted to $2.4 million, plus $0.2 million of additional amortization related to intangible assets recognized on the acquisition.

Gross profit increased to $48.2 million (23.4% of sales) in the first nine months of 2017 from $34.9 million (19.3% of sales) in the first nine months of 2016. This increase in gross profit was primarily the result of the increase in instant ticket volumes, higher ancillary instant ticket products and services sales and the addition of Diamond Game (INNOVA). The higher gross profit percentage was due to the larger volumes of instant tickets, the instant ticket sales mix weighted to higher margin products, increased sales of ancillary instant ticket products and services and improved manufacturing efficiencies.

Administration expenses

Administration expenses increased to $21.1 million in the first nine months of 2017 from $15.9 million in the first nine months of 2016. The increase was partly a result of the inclusion of Diamond Game (INNOVA) of $2.1 million (which includes $1.3 million in severance costs related to the departure of a former executive). Additional reasons for the increase were the $2.4 million in acquisition costs in the first nine months of 2017 and an increase in compensation expenses (which primarily related to expansion of our ancillary lottery product and services sales and acquisition efforts) including incentive accruals compared to 2016. These increases were partially offset by lower professional fees, primarily legal costs, which were lower by $1.2 million in the first nine months of 2017 compared to the first nine months of 2016.

Selling expenses

Selling expenses increased to $6.8 million in the first nine months of 2017 compared to $5.8 million in the first nine months of 2016 due primarily to higher compensation costs and $0.4 million from the addition of Diamond Game (INNOVA).

Interest expense

Interest expense decreased to $2.5 million in the first nine months of 2017 from $2.6 million in the first nine months of 2016 primarily as a result of lower interest rates and higher cash flow reducing long-term debt in 2017, partially offset by additional interest expense incurred related to the purchase of Diamond Game (INNOVA).

Foreign exchange gain

The net foreign exchange gain was $0.9 million in the first nine months of 2017 compared to a gain of $0.7 million in the first nine months of 2016. The 2017 net foreign exchange gain consisted of an unrealized foreign exchange gain of $1.9 million primarily as a result of the decreased Canadian equivalent value of U.S. denominated debt and accounts payable with the strengthening of the Canadian dollar relative to the U.S. dollar. This gain was partially offset by the realized foreign exchange loss of $1.0 million as a result of foreign currency denominated account receivables collected being converted into Canadian dollars at unfavorable foreign exchange rates.

The 2016 net foreign exchange gain consisted of an unrealized foreign exchange gain of $2.0 million primarily as a result of the decreased Canadian equivalent value of U.S. denominated debt and accounts payable with the strengthening of the Canadian dollar relative to the U.S. dollar. This gain was partially offset by the realized foreign exchange loss of $1.3 million, as a result of foreign currency denominated account receivables collected being converted into Canadian dollars at unfavorable foreign exchange rates.

Adjusted EBITDA

Adjusted EBITDA was $31.0 million in the first nine months of 2017 compared to $20.6 million in the first nine months of 2016. The primary reasons for the increase in Adjusted EBITDA of $10.4 million were the increase in gross profit (net of amortization and depreciation) of $11.6 million, the inclusion of Diamond Game (INNOVA) of $1.1 million and the decrease in realized foreign exchange loss of $0.3 million. Partially offsetting these increases were the increase in administration expenses (net of acquisition costs) of $0.8 million, the increase in loss of equity investment of $0.8 million, the additional $0.5 million of selling expenses and the reduction in other income of $0.4 million.

Income taxes

Income tax expense was $5.5 million in the first nine months of 2017, an effective rate of 30.4%, which was similar to our expected effective rate of 27.0%.

Income tax expense was $3.0 million in the first nine months of 2016, an effective rate of 26.0%, which was similar to our expected effective rate of 27.0%.

Amortization and depreciation

Amortization and depreciation, including amortization of deferred financing costs and intangible assets, and depreciation of property and equipment, totaled $8.8 million during the first nine months of 2017 which increased from $8.5 million during the first nine months of 2016. The increase was primarily as a result of addition of Diamond Game (INNOVA), with $0.6 million of amortization and depreciation, and the $0.2 million of additional amortization related to intangible assets recognized upon the acquisition. These increases were partially offset by the decrease in depreciation of property, plant and equipment.

Net income

Net income was $12.4 million in the first nine months of 2017 compared to $8.5 million in the first nine months of 2016. The primary reason for the higher net income of $3.9 million was the increase in gross profit of $12.1 million. This increase was partially offset by the loss from Diamond Game (INNOVA) of

$0.5 million (which includes $1.3 million in severance costs related to the departure of a former executive) and the additional amortization related to intangibles recognized on acquisition of $0.2 million. Additional reductions to net income included an increase of $3.1 million in administration expenses (primarily due to $2.4 million in acquisition costs relating to the purchase of INNOVA), higher selling expenses of $0.6 million, the increase from the loss on equity investment of $0.8 million, the decrease in other income of $0.4 million and an increase in income taxes of $2.7 million.

Net income per share (basic and diluted) increased to $0.53 per share in the nine months ended September 30, 2017, from $0.36 in the first nine months of 2016.

Liquidity and Capital Resources

Cash provided by operating activities

For the nine months ended September 30, 2017, cash flow provided by operating activities was $20.3 million compared to cash flow provided of $6.1 million for the first nine months of 2016. Higher net income after non-cash adjustments in the first nine months of 2017 increased the cash provided by operating activities compared to the first nine months of 2016. Changes in the non-cash component of working capital decreased cash flow from operations by $1.5 million for the nine months ended September 30, 2017 due primarily to the increase in inventories, partially offset by decrease in accounts receivable and an increase in accounts payable, compared to a decreased cash flow from operations by $10.9 million for the nine months ended September 30, 2016 due primarily to the increase in accounts receivable.

Cash used for interest payments of $2.4 million in 2017 was similar to $2.4 million in 2016. Cash used for pension plan contributions increased to $2.7 million in 2017 as compared to $2.3 million in 2016. Cash used for income tax payments increased to $5.2 million in 2017 from $1.9 million in 2016. Cash payments in 2017 included the final installment for the 2016 tax year and initial installments for 2017. Increased income in 2016 resulted in this higher installment requirement.

Cash used for investing activities

In the nine months ended September 30, 2017, cash used for investing activities was $47.2 million compared to cash used of $4.3 million in the first nine months of 2016. In the nine months ended September 30, 2017, Pollard used $39.3 million, net of cash acquired, to purchase Diamond Game (INNOVA). In addition, Pollard invested $5.1 million in capital expenditures, $1.4 million in its iLottery joint venture and $1.3 million on additions to intangible assets.

In the nine months ended September 30, 2016, capital expenditures were $3.3 million. In addition, Pollard invested $0.8 million in its iLottery joint venture and $0.8 million on additions to intangible assets. Proceeds from the sale of Pollard's investment in associate provided cash of $0.5 million.

Cash provided by financing activities

Cash provided by financing activities was $24.5 million in the nine months ended September 30, 2017, compared to cash used of $0.7 million in the nine months ended September 30, 2016.

During the first nine months of 2017 Pollard received net proceeds from long-term debt of $15.0 million and $11.5 million from subordinated debt. These receipts of cash were partially offset by $0.6 million of financing costs and dividends paid of $2.1 million.

During the first nine months of 2016 proceeds from long-term debt of $2.0 million were offset by the $0.3 million repayment on subordinated debt, $0.1 million of financing costs and dividends paid of $2.1 million.

As at September 30, 2017, Pollard had unused debt facility of $33.4 million, in addition to $4.8 million in available cash resources. These amounts, in addition to cash flow provided by operating activities, are available to be used for future working capital requirements, contractual obligations, capital expenditures, dividends and to assist in financing future acquisitions.

Quarterly Information
(unaudited)
(millions of dollars)

	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015
Sales	$70.7	$77.9	$57.5	$65.7	$62.7	$54.0	$64.0	$57.2	$57.9
Adjusted EBITDA	11.6	13.1	6.3	9.1	7.8	6.0	6.8	6.3	7.5
Net income	4.6	6.0	1.8	3.8	2.8	2.1	3.6	1.2	1.9

Q3 2017 Adjusted EBITDA was higher relative to quarters prior to Q2 2017 due to increased gross profit (net of amortization and depreciation) as a result of the higher average selling price of instant tickets and increased sales of ancillary lottery products and services. The addition of Diamond Game (INNOVA) also contributed to the increase in Adjusted EBITDA.

Q2 2017 sales, Adjusted EBITDA and net income were higher due to a number of positive factors including sales volumes boosted by the significant amount of product in transit at the end of Q1 2017.

Working Capital

Net non-cash working capital varies throughout the year based on the timing of individual sales transactions and other investments. The nature of the lottery industry is few individual customers who generally order large dollar value transactions. As such, the change in timing of a few individual orders can impact significantly the amount required to be invested in inventory or receivables at a particular period end. The high value, low volume of transactions results in some significant volatility in non-cash working capital, particularly during a period of rising volumes. Similarly, the timing of the completion of the sales cycle through collection can significantly impact non-cash working capital.

Instant tickets are produced specifically for individual clients resulting in a limited investment in finished goods inventory. Customers are predominantly government agencies, which result in regular payments. There are a limited number of individual customers, and therefore net investment in working capital is managed on an individual customer by customer basis, without the need for company wide benchmarks.

The overall impact of seasonality does not have a material impact on the carrying amounts in working capital.

As at September 30, 2017, Pollard's investment in non-cash working capital increased $1.5 million compared to December 31, 2016, primarily as a result of an increased investment in inventories, partially offset by decrease in accounts receivable and increase in accounts payable.

	September 30, 2017	December 31, 2016
Working Capital	$42.6	$49.5
Total Assets	$224.8	$176.8
Total Non-Current Liabilities	$117.0	$94.4

Credit Facility

Pollard's credit facility was renewed effective June 22, 2017. The credit facility provides loans of up to $105.0 million for its Canadian operations and US$12.0 million for its U.S. subsidiaries. The borrowings for the Canadian operations can be denominated in Canadian or U.S. dollars, to a maximum of $105.0 million Canadian equivalent. The credit facility also includes an accordion feature which can increase the facility by $15.0 million. Borrowings under the credit facility bear interest at fixed and floating rates based on Canadian and U.S. prime bank rates, banker's acceptances or LIBOR. At September 30, 2017, the outstanding letters of guarantee were $1.9 million. The remaining balance available for drawdown under the credit facility was $33.4 million.

Under the terms and conditions of the credit facility agreement Pollard is required to maintain certain financial covenants including working capital ratios, debt to income before interest, income taxes, amortization and depreciation ("Adjusted EBITDA") ratios and certain debt service coverage ratios. As at September 30, 2017, Pollard is in compliance with all financial covenants.

Pollard's credit facility is secured by a first security interest in all of the present and after acquired property of Pollard. The facility can be prepaid without penalties. Under the terms of the agreement the facility was committed for a two year period, renewable June 22, 2019.

Pollard believes that its credit facility, subordinated loan from Pollard Equities Limited ("Equities) and ongoing cash flow from operations will be sufficient to allow it to meet ongoing requirements for investment in capital expenditures, working capital and dividends.

Subordinated Loan

On April 2, 2014, Pollard entered into a loan agreement with Equities for a subordinated term loan with a seven year term, repayable at any time (subject to meeting certain financial covenants under the secured credit facility), in the amount of $6.8 million. The term loan was provided to assist in the purchase of a printing press. Quarterly principal payments on the subordinated loan facility commenced the quarter following June 30, 2016. Interest on the subordinated debt commenced with the first draw at a rate of 9%. On September 28, 2017, Pollard repaid the remaining balance of the loan.

On June 23, 2017, Pollard entered into a second loan agreement with Equities for an additional subordinated term loan with a seven year term, repayable at any time (subject to meeting certain financial covenants under the secured credit facility). The loan was provided to assist with the purchase of the common shares of INNOVA. A total of $25.1 million was drawn in the third quarter of 2017. On September 20, 2017, Pollard repaid $7.5 million in outstanding principal. Quarterly principal payments on the second loan facility commenced the month following the first draw, which occurred August 4, 2017. Interest on the subordinated debt commenced with the first draw at a rate of 8%.

The loans are fully subordinated to the secured credit facility.

Outstanding Share Data

As at September 30, 2017 and November 8, 2017, outstanding share data was as follows:

Common shares	23,543,158

Share Options

Under the Pollard Banknote Limited Stock Option Plan the Board of Directors has the authority to grant options to purchase common shares to eligible persons and to determine the applicable terms. The aggregate maximum number of common shares available for issuance from Pollard's treasury under the Option Plan is 2,354,315 common shares.

On March 13, 2017, the Board of Directors approved the award of 125,000 options to purchase common shares of Pollard for certain key management personnel. The options were granted on April 24, 2017 and have a seven year term, vesting 25% per year over the first four years. The exercise price of the options was equal to the closing price of the common shares on April 21, 2017. As at September 30, 2017, the total share options outstanding were 250,000.

Pension Obligations

For the nine months ended September 30, 2017, Pollard recorded a remeasurement loss of $0.9 million (net of $0.4 million of income tax reduction) on its defined pension plans. The remeasurement loss resulted from a decrease in the discount rate, partially offset by remeasurement gains arising on plan assets.

Pollard sponsors four non-contributory defined benefit pension plans, of which three are final pay plans and one is a flat benefit plan. One of Pollard's Canadian pension plans required a solvency valuation as of December 31, 2016. The valuation calculated a deficit of approximately $10.1 million, due to the low current levels of the mandated interest rate used to discount the future liabilities. As a result Pollard is required to make special pension plan payments, which commenced in the fourth quarter of 2017, of approximately $1.1 million per year through to 2026. These additional solvency payments do not impact pension expense and therefore will not affect our net income or Adjusted EBITDA.

Contractual Obligations

There have been no material changes to Pollard's contractual obligations since December 31, 2016, that are outside the normal course of business.

Off-Balance Sheet Arrangements

There have been no material changes to Pollard's off-balance sheet arrangements since December 31, 2016, that are outside the normal course of business.

Financial Instruments

The financial instruments of Pollard remain substantially unchanged from those identified in the MD&A for Pollard for the year ended December 31, 2016.

Critical Accounting Policies and Estimates

The preparation of the financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting period. Management of Pollard regularly reviews its estimates and assumptions based on historical experience and various other assumptions that it believes would result in reasonable estimates given the circumstances. Actual results could differ from those estimates under different assumptions. The following is a discussion of accounting policies which require significant management judgment and estimation.

Impairment of goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired and is not amortized. Goodwill is subject to an annual impairment review. This requires an estimation of the "value in use" or "fair value less costs to sell" of the cash-generating units ("CGUs") to which goodwill is allocated. Estimating a value in use requires Pollard to make an estimate of the expected future cash flows from the CGUs and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Employee future benefits

Accounting for defined benefit plans requires Pollard to use actuarial assumptions. These assumptions include the discount rate and the rate of compensation increases. These assumptions depend on underlying factors such as economic conditions, government regulations, investment performance, employee demographics and mortality rates.

Income taxes

Pollard is required to evaluate the recoverability of deferred income tax assets. This requires an estimate of Pollard's ability to utilize the underlying future income tax deductions against future taxable income before they expire. In order to evaluate the recoverability of these deferred income tax assets, Pollard must estimate future taxable income.

Acquisition accounting

For acquisition accounting purposes, all identifiable assets, liabilities and contingent liabilities acquired in a business combination are recognized at fair value at the date of acquisition. Estimates are used to calculate the fair value of these assets and liabilities.

Related Party Transactions

Pollard has not entered into any significant transactions with related parties during the nine months ended September 30, 2017, which are not disclosed in the unaudited condensed consolidated interim financial statements.

Industry Risks and Uncertainties

The risk factors affecting Pollard remain substantially unchanged from those identified in the MD&A for Pollard for the year ended December 31, 2016.

Outlook

The lottery industry has for many years generated strong growth and this trend continues, particularly within the instant ticket side of the business. We believe the overall market and demand for instant tickets will remain very positive.

An important area of focus for the lottery industry is the development of ancillary products and services to support and grow revenue generated for good causes. Areas such as digital engagement including loyalty clubs, digital apps and iLottery are increasing in importance for lotteries. We are actively pursuing opportunities to increase our revenue with existing customers while also leveraging these services to forge new relationships.

Our 2017 production volumes have been significantly higher than 2016 and we expect these higher levels to continue. Higher order levels from our existing customer portfolio due to increases in the overall lottery market, combined with a higher share of instant ticket orders where there are multiple suppliers, have been the primary reasons for our growth and we expect these factors to continue. Our contract portfolio remains unchanged and we do not have any major existing contracts which expire in the next 12 months. We will maintain our discipline in bidding strategically on instant ticket contracts that become available in the future.

Manufacturing efficiencies are an important factor in improving our margins and our ongoing work on maximizing the productivity of our press operations including our Tresu press in Ypsilanti, Michigan remains an important initiative. Improving results from these programs have had a positive impact on our margins in addition to the benefits attained through levering higher volumes relative to our fixed costs. While important gains have been made during 2017, we believe there remains additional improvements to attain in the future.

During the quarter the Canadian dollar strengthened significantly in comparison to the U.S. dollar which impacts our operations and cash flow by generating realized losses on our U.S. dollar denominated receivables and unrealized gains on our net U.S. dollar denominated debt. Despite our extensive internal natural hedges, a continuing stronger dollar will further this negative financial impact in addition to negatively impacting our bid strategy on U.S. dollar denominated contracts.

Our cash flow remains very positive as increased operating earnings coupled with controlled capital expenditures resulted in significant free cash flow. We believe this trend will continue as our capital expenditures are expected to remain at levels witnessed over the last 18 months with no major projects expected. One important factor affecting our cash flow is the investment or recovery from working capital. Similar to previous experiences, our working capital investment absorbed considerable cash flow during the third quarter due to the timing of the revenue recognition of our production. We would anticipate this to reverse during the upcoming quarters as part of the natural flow of our sales cycle, however continued growth in our business levels could require continued high levels of working capital.

The acquisition of Diamond Game (INNOVA Gaming Group Inc.) was completed during the third quarter and the integration with Pollard is proceeding very smoothly. Steps have been taken to reduce the corporate cost structure and we are focused on assisting in the expansion of their product line. The sales cycle associated with our unique LT-3 vending machines and associated products is very long and our focus is on bringing Pollard's existing relationships and lottery strengths to support Diamond Game sales development.

Our charitable gaming business remains stable, generating consistent cash flow within an industry that has recently shown signs of small positive growth for the first time in a number of years. The addition of the Diamond Game, business with its additional focus on the charitable sector, should provide additional leverage to our charitable product portfolio.

Part of our growth strategy includes strategic acquisitions to expand and add to our lottery expertise and we continue to actively pursue opportunities. Our focus remains on the lottery and charitable gaming market and we will be disciplined in our diligence, with any potential transaction having to meet specific criteria and generate appropriate value added returns.

Disclosure Controls and Procedures

Under National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings," issuers are required to document the conclusions of the Chief Executive Officer and Chief Financial Officer (the "Certifying Officers") for the interim period regarding the design of the disclosure controls and procedures. Pollard's management, with the participation of the Certifying Officers of Pollard, has concluded that the design of the disclosure controls and procedures as defined in National Instrument 52-109 will provide reasonable assurance of achieving the disclosure objectives.

Internal Controls over Financial Reporting

Under National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings," issuers are required to document the conclusions of the Certifying Officers regarding the design of the internal controls over financial reporting. Management used the Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013) as the control framework in designing its internal controls over financial reporting. Pollard's management, with the participation of the Certifying Officers of Pollard, has concluded that the design of the internal controls over financial reporting as defined in National Instrument 52-109 will provide reasonable assurance of achieving the financial reporting objectives.

Pollard has limited its design of ICFR to exclude controls, policies and procedures of INNOVA, as it was acquired not more than 365 days before the end of the financial period to which this MD&A relates.

No changes were made in Pollard's internal control over financial reporting during the three and nine months ended September 30, 2017, that have materially affected, or are reasonably likely to materially affect, Pollard's internal control over financial reporting.

Additional Information

Shares of Pollard Banknote Limited are traded on the Toronto Stock Exchange under the symbol PBL.

Additional information relating to Pollard, including the Audited Consolidated Financial Statements and the Annual Information Form of Pollard for the year ended December 31, 2016, is available on SEDAR at www.sedar.com.

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